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Intelligent Investment

Unrestrained investor appetite for food

VIEWPOINT

The supermarket and grocery segment has enjoyed steadily increasing popularity on the German retail real estate investment market - the corona pandemic has provided an additional boost

CBRE RESEARCH
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Strong investment case for supermarkets & grocery stores

Food-anchored investment opportunities have enjoyed steadily increasing popularity on the investment market for retail real estate in Germany for several years. Correspondingly, the investment transaction volume in discounter grocery stores, supermarkets and hypermarkets has risen continuously in recent years. In this context, the corona pandemic has led to a real boom in this asset class since 2020.

Investment transaction volume at record level

Since 2015, an average of €1.5bn has been invested annually in supermarkets, grocery stores and hypermarkets on the German retail investment market. In the past year 2021, a new historic high was achieved with a total of €2.4bn.

The reasons for the increasing popularity of this real estate asset class are extremely diverse.

On the one hand, attractive return ratios with sustainably secure rental income contribute to the success of these retail sub-asset classes as a resilient investment product. Food retailing, which has low margins compared with the rest of the sector, is highly resistant to online retailing. In addition, the German food retail sector is highly branch-based and the tenants of grocery stores are characterized by a manageable number of well-known, credit-worthy retail companies operating nationwide, which offer the prospect of a sustainably stable cash flow.

On the other hand, these retail properties have a persistently attracttive relative yield spread - both in comparison with other asset classes and with government bonds considered to be safe. For example, the loose monetary policy pursued by the world's leading central banks in the wake of the global financial market crisis has pushed yields on long-term government bonds to historic lows. Accordingly, institutional investors in particular, such as insurance companies, pension funds, provident funds and sovereign wealth funds, as well as asset and fund managers, are successively increaseing their real estate exposure. In particular, (retail) properties from economies considered to be relatively safe were added to the portfolio in order to take advantage of the (sometimes significantly) positive interest rate differential compared with the benchmark yield of a risk-free investment. In Germany, the spread on an investment in a supermarket versus the 10-year federal bond peaked at 5.99%-points (Q1 2015). Even though the gap has narrowed in the meantime, an attractive difference remains, thus ensuring unabated strong demand for real estate investment products in Germany.

Average annual investment transaction volume since 2015

€1.5bn

Investment volume in 2021

€2.4bn

Prime yield grocery store Q4 2021

3.60%

Yield compression since 2015

240bps

The Corona pandemic has led to a veritable "run" by investors on grocery stores and food-anchored properties. While large parts of the stationary retail sector were affected by closures and restrictive access regulations, supermarkets and grocery stores were ennobled as system-relevant. As a result, food retailers in Germany were not only open throughout, but also saw a significant increase in sales during the pandemic. Accordingly, investors who had not been active in this segment in the past increased their exposure.

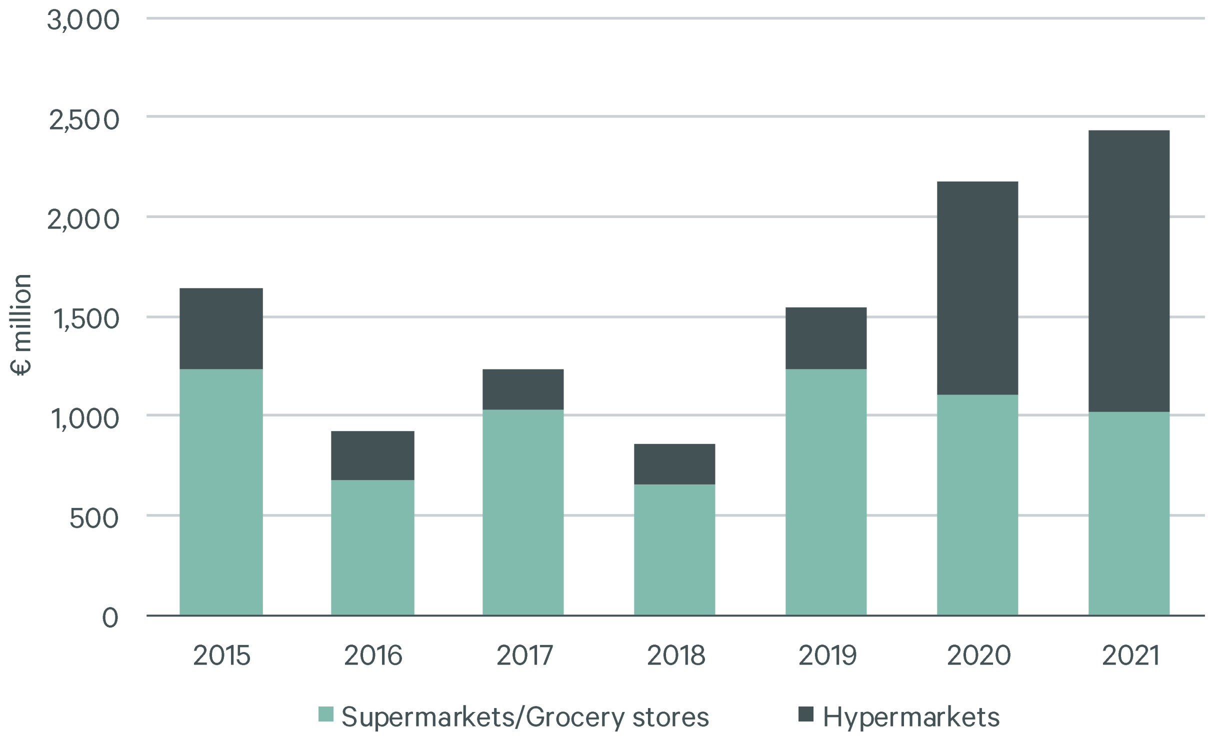
Wide range of investors thanks to attractive (but increasing) lot sizes

Another reason for the popularity of these properties as capital investments is their purchase price. Whereas the number of potential investors for shopping centers, for example, is limited from the outset due to the high investment volume, grocery stores come into consideration for a large number of investors due to their attractive investment lot sizes.

Average purchase prices for supermarkets or grocery stores currently stand at €2,290/sq m of retail space. In arithmetical terms, this results in a purchase price of around €1.8m for a discounter with 800sq m or €6.9m for a convenience store with 3,000sq m, making these retail properties an easily accessible and liquid product for the investment market. However, the evaluation of transaction activity since 2015 shows that purchase prices for grocery stores have risen continuously and the price per m² has almost doubled since then.

In contrast, the price trend for hypermarkets shows a somewhat different course. After purchase prices here also rose sharply (58%) between 2015 (€1,360 per sq m) and 2019 (€2,160 per sq m), prices fell in the last two years and are currently around €1,630 per sq m.

Figure 1: Investment transaction volume by type of use



Source: CBRE Research

This result was significantly influenced in 2020 by the portfolio sale of the hypermarket chain real by Metro AG to the SCP Group and in 2021 by various individual and portfolio transactions of (former) real hypermarkets in particular, which achieved lower purchase prices than in previous years due to, among other things, tenant changes and modernization costs.

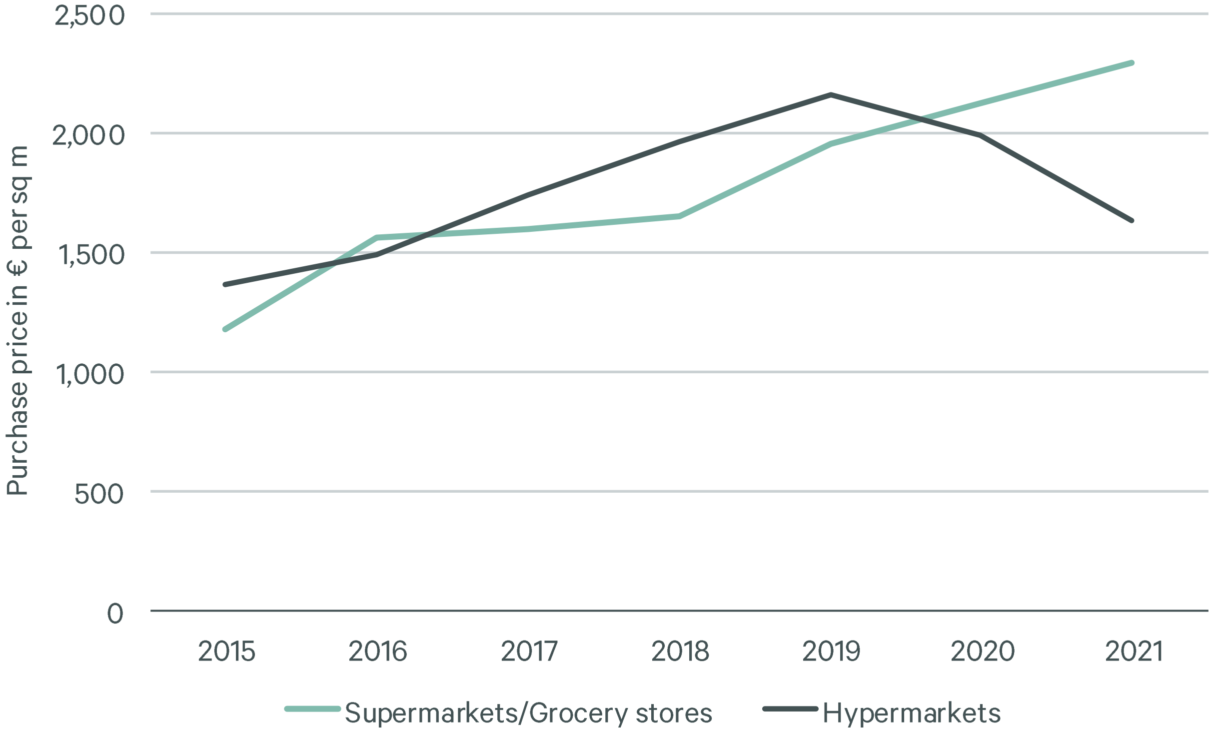
Development of prime yields

As a consequence of the popularity of this retail asset class, prime net initial yields in this segment have declined noticeably over time. There are clear differences between the development prior to the outbreak of the pandemic and the lockdown phases characterized by restrictions and limitations, which have affected both the private living environment and, in particular, stationary retail since the beginning of 2020 and as a result of which investor interest in supermarkets and grocery stores has once again increased significantly.

Since 2015, grocery stores have seen yield compression of 240bps, while hypermarkets have seen a decline of 210bps. The decline in prime yields is thus much more pronounced than for other, established asset classes such as office (151bps) or residential (84bps), and is on a par with nursing care properties (decline of 210bps), which are becoming increasingly attractive as an alternative asset class. The strong yield compression for the two retail property types since the emergence of the Corona virus is striking. Since the end of 2019, the net initial yield of supermarkets has declined by 160bps and hypermarkets by 115bps. By contrast, logistics properties, which have also been positively impacted by the Corona pandemic, have declined by 60bps, while office properties or multifamily residential properties have seen much smaller declines of 21 and 37bps, respectively.

Currently, the level of prime yields for grocery stores and hypermarkets is 3.60%, well above the net initial yields of office or residential properties, but also well above logistics properties.

Figure 2: Development of purchase prices (in € per sq m) - mean value

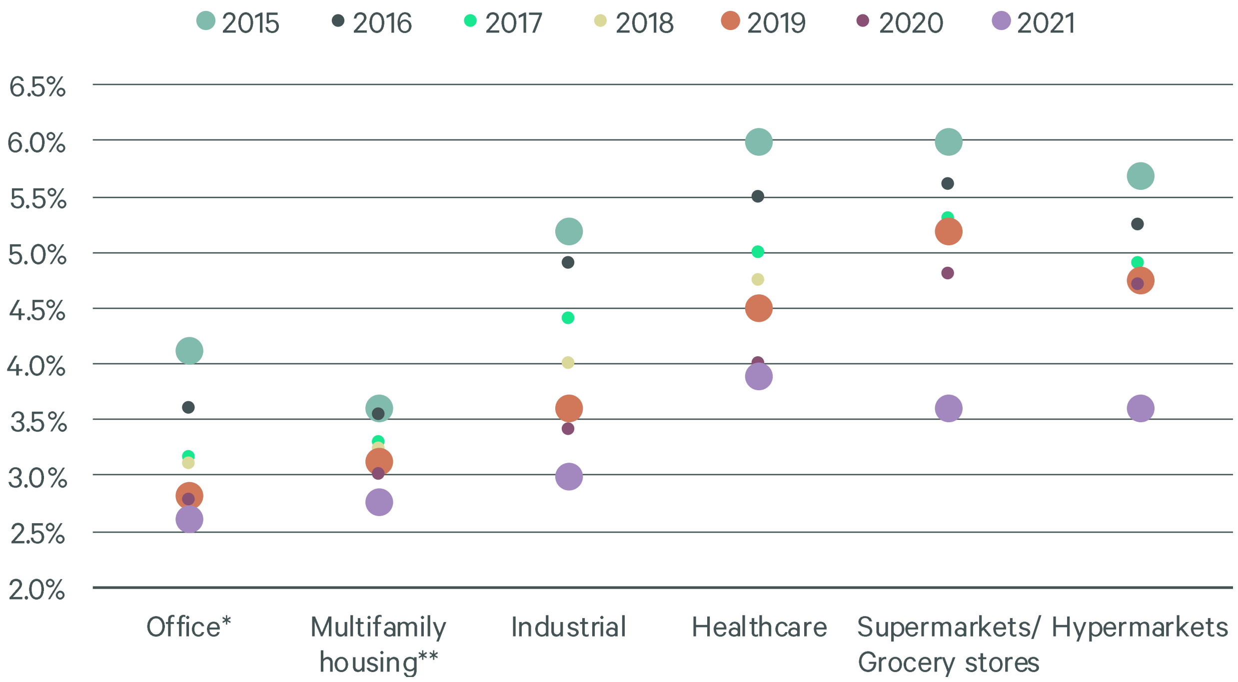


Source: CBRE Research

Outlook

Supermarkets and food-anchored retail properties will continue to be the focus of transaction activity on the German retail investment market in 2022. We anticipate a total investment volume of about €1.8bn for the year 2022. However, product availability is likely to tighten further due to sustained high investor demand. Despite further price rises, it will not be possible to meet demand in full. On the other hand, increased capital values make the sale of this asset class attractive, so that adequate product is repeatedly coming onto the market.

Figure 3: Development of prime yields since 2015 in comparison



Note: *Prime office Top 5 markets; **New supply Top 5 markets
Source: CBRE Research

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